

## **Operating the Lancaster Event Center after Phase 2 Construction: Estimated Impact on Results of Operations, Net Assets, and Cash Flows**

Analysis Prepared for:  
Lancaster County Agricultural Society  
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This analysis was prepared for the Lancaster County Agricultural Society (LCAS). Content remains the sole property of LCAS and may not be used without prior approval of that organization.

The LCAS Board of Directors commissioned a study in July 2005 to examine the economic impact of the construction and fiscal 2007 operations of Phase 2 of the Lancaster Event Center (LEC), on Lancaster County, the Lincoln Metropolitan Statistical Area, and the State of Nebraska. That study was performed by Ernie Goss, Ph.D.<sup>1</sup> This analysis is a component of that larger analysis, and contains estimated financial information including estimated results of operations, net assets, and cash flows showing one depiction of the estimated financial impact of expanding the LEC with what is referred to as Phase 2.<sup>2</sup> Although the financial information presented is in the form of historical financial statements, the information contained in this analysis is not audited. The amounts are based upon assumptions (detailed below), estimates of future activity including, but not limited to, anticipated events hosted by the LEC, attendance at those events, spending patterns of both exhibitors and visitors, potentially all of which may be incorrect in terms of actual outcomes. The analysis contains estimated financial information upon which I do not make any conclusion, offer any opinion or provide any assurance as to its accuracy, or as to the achievability of the estimates. Further, I do not hold myself out as a licensee of the Nebraska State Board of Public Accountancy. This analysis was completed while I was serving a one-year academic fellowship with the United States Securities and Exchange Commission. The Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. Thus, the views expressed here are my own, and do not necessarily reflect the views of the Commission or the other members of the staff of the Commission. No information to which I had access during my association with the Commission was used in the preparation of this analysis. The financial information contained herein is solely for illustrative purposes and intended only for use by the LCAS Board of Directors.

I give special thanks to Ernie Goss and Alan Wood for providing their insights and time in support of this analysis. Any errors are mine. Please address all correspondence to:

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<sup>1</sup>See, Goss, E. 2005, "The Economic Impact of Phase 2 LEC Construction and Operations on the Area Economy," Goss and Associates, Omaha, NE.

<sup>2</sup>A copy of the principle investigator's biography is appended to this study.

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## **Phase 2 Lancaster Event Center Construction: Projected Impact on Lancaster Event Center Results of Operations, Financial Position, and Cash Flows**

### **Introduction**

The mission of the Lancaster Country Agricultural Society (LCAS) is to promote, support, educate, and encourage the future for Nebraska youth, agriculture, and community. The LCAS owns the Lancaster Event Center (LEC), situated at Havelock Avenue and 84th Street in Lincoln, Nebraska. LEC has played a pivotal role in carrying out the LCAS mission since January 27, 2001. LEC hosts numerous events, such as the Lancaster Country Fair and serves as a multipurpose, year-round facility. Although the LCAS is a publicly supported institution, the LEC is operated as a quasi-business. It derives most of its current revenues from rental fees paid by exhibitors and others who use the LEC facility. It also generates a significant portion of its revenues from concession sales during the various events.

The LCAS audited financial statements for fiscal years ended November 30, 2004 and November 30, 2003, report that LEC had revenues of approximately \$969,000 and \$857,000, respectively, operating expenses of approximately \$1,286,000 and \$1,305,000, respectively, and operating losses of approximately \$317,000 and \$448,000, respectively.<sup>3</sup>

The LCAS has proposed plans to expand the LEC. Termed Phase 2, the plan involves expanding the LEC, as well as other commercial development at the site. This analysis is concerned solely with the effects of LEC expansion and additional retail site development. The LEC currently has over 258,000 square feet of space, and the expansion calls for an additional 275,000 square feet with approximately 60 percent used for additional pavilion space, and the rest used for an arena. The anticipated cost of this expansion is \$15,000,000.<sup>4</sup> Table 1 presents information on Phase 1 and 2 of the LEC.

The purpose of this report is to present the results of a financial analysis of the estimated LEC results of operations, net assets, and cash flows for the twelve months immediately following the construction of Phase 2 of the LEC. Goss (2005) prepared an analysis of Phase 2 expansion, including the more general economic impacts of construction and operation on the area economy (See Goss 2005). In addition, an appraisal of the retail space to be developed on land adjacent to and owned by the LEC and the annual potential lease receipts has been prepared (see Great Plains, 2005) and incorporated into this analysis.<sup>5</sup>

As with all similar analyses, preparing this analysis required the adoption of several assumptions about construction costs, anticipated operating expenses, and perhaps more importantly, anticipated growth in operating revenues and expenses. The risk of preparing such an analysis is, therefore, that the assumptions may be incorrect or that a potentially infinite number of other factors upon which the outcomes are based may differ substantially from what is shown in the analysis. For example, Goss (2005), p. 35 lists 12 events that the LEC could potentially host during the first year of operating the expanded LEC with an anticipated total attendance of nearly 300,000 visitors. This analysis bases the estimated revenues and expenses, in part, on the LEC actually securing those 12 events and that the expected attendance figures contained in Goss (2005) materialize. It is also based on the appraisal prepared by Great Plains (2005) which estimates rental revenues from leasing the retail space to be developed by the LEC at approximately \$246,000 annually.

Those outcomes are not certain, and are dependent upon a potentially infinite number of other factors, including the success of the LEC marketing efforts not only to attract such events, but also to market them, such that the attendance anticipated materializes. Further, even if the aforementioned events are secured and the actual attendance

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<sup>3</sup>At the time of this writing, 2005 audited fiscal year end financial statements had not been issued.

<sup>4</sup>See Goss (2005) p. 4.

<sup>5</sup>Contact LEC for questions about the appraisal that details anticipated lease revenues to be received by LEC for commercial retail space included in Phase 2 expansion. The appraisal was prepared by Great Plains Appraisal, Inc., Oct. 31, 2005.

| <b>Table 1: Description of current LEC and planned expansion</b> |                     |                      |                               |
|--|---------------------|----------------------|-------------------------------|
|  | <b>Existing LEC</b> | <b>LEC Expansion</b> | <b>Commercial Development</b> |
| <b>Lancaster Event Center</b>                                    |                     |                      |                               |
| Multi-purpose—sq. ft.  | 66,000              |                      |                               |
| Pavilion 1—sq. ft.   | 84,000              |                      |                               |
| Pavilion 2—sq. ft.   | 86,000              |                      |                               |
| Small animal building—sq. ft.                                    | 22,000              |                      |                               |
| Pavilion 3—sq. ft.   |                     | 81,000               |                               |
| Pavilion 4—sq. ft.   |                     | 81,000               |                               |
| Arena-concourse and seating—sq. ft.                              |                     | 52,000               |                               |
| Arena-floor level—sq. ft.  |                     | 35,000               |                               |
| Arena-floor level storage area—sq. ft.                           |                     | 26,000               |                               |
| <b>Commercial Development</b>                                    |                     |                      | <b>14.4 acres</b>             |
| Retail space—sq. ft.   |                     |                      | 44,000                        |
| Restaurant—sq. ft.   |                     |                      | 8,000                         |
| Hotel/motel  |                     |                      | 75 rooms                      |
| <b>Source: Design Associates, Lincoln, Nebraska</b>              |                     |                      |                               |

figures approximate that anticipated, the spending patterns of the exhibitors for rental space and visitors for concessions may not materialize as expected. Thus, users of this analysis should interpret the results with care and understand that the estimated revenues may or may not materialize and that expenses may be more or less than are anticipated. If circumstances like these, or any others arise that derail the LEC performance significantly, the actual results of operations, net assets, and cash flows may be significantly different from those shown in this analysis.

The next section presents the primary assumptions, estimates, and methods for estimating LEC financial activity.

## How Was the Financial Analysis Prepared?

This section details the various assumptions and methods upon which the analysis is based.

### Phase 2 Construction

The estimated net revenues and expenses, net assets, and cash flows contained in this analysis are based on the assumption that Phase 2 of LEC is constructed and that the newly available space, along with the currently available space are used in combination as anticipated. The analysis is also based on the development and successful leasing of adjacent retail space.

That is, the underlying data consist of prospective revenues, expenses, net assets, and cash flows that may result from operating the entire space referred to as LEC and adjacent retail space as expected to be expanded.

## Basis of Accounting

The basis of accounting underlying the estimated revenues and expenses, net assets, and cash flows in this analysis is the accrual method. The accrual method assumes, for example, that revenues are recognized when earned (not necessarily when collected) and that expenses are matched against the revenues generated (not necessarily when paid). The format follows what is typical for governmental quasi-business activities modified slightly for simplification.

## Estimated Revenue and Cost Driver

The most important determinants of actual LEC financial performance are the levels of revenues and expenses. This analysis assumes that an appropriate indicator of future performance of LEC is past performance. Accordingly, a method was devised to estimate, using econometric methods, future LEC revenues and expenses based on previous activity. Doing so required the adoption of a revenue and cost driver. Although alternatives exist, the primary revenue and cost driver used in this analysis is historical monthly attendance at LEC events for the previous 33 months ending with August 31, 2005. Future estimated attendance is assumed

to be a function of two factors: (1) estimated monthly attendance during the most recent 12 months ending with August 2005, and (2) projected additional attendance based on securing the 12 events as detailed in Goss (2005). See Table 2.

LEC staff estimated and supplied attendance figures for events that occurred during the preceding 33 months (i.e., December 2002-August 2005). Those figures, along with the respective monthly unaudited revenues and expenses were used in statistical analyses to generate forecasting models using ordinary least squares.

| <b>Table 2: Estimated additional attendance for LEC from Phase 2</b> |         |
|--|---------|
| Number of regional/national events                                   | 12      |
| Days   | 44      |
| Number of visitors   | 292,786 |
| Number of exhibitors   | 4,385   |
| Source: Goss (2005)  |         |

Estimated monthly attendance figures were used in the models to estimate 12 monthly observations on individual types of revenues and costs detailed below. These were developed by adding to each of the twelve preceding months' estimated attendance, the average incremental monthly attendance from hosting the twelve events highlighted in Goss (2005), and applying the OLS regression models to those figures. In most of the cases, variation in the independent variable (e.g., attendance) accounted for a significant portion of the variation in the revenues and or costs. In some cases, such a relationship did not exist, and other methods are used. The method used for each line in the estimated financial statements is indicated below.

### Estimated Revenues

The LEC derives revenues from several sources, and in the November 30, 2004 audited financial statements, Rental Income and Concession Income account for approximately 56 percent and 28 percent, respectively, of total revenue. Other sources of revenue consist of security and labor charges to exhibitors, shaving and bedding revenue, and miscellaneous, among others. Accordingly, as shown in the estimated revenues and

expenses, models were developed to estimate three groups of revenues: rental, concession, and other. Upon running the OLS regression models, variation in attendance accounted for 20, 55, and 58 percent of the variation in the 33 previous months' observations of monthly revenues for the 3 respective types of revenues. This variation in anticipated attendance explains a larger portion of the variation in the latter two classes or revenues than the first one. But in each case the models are statistically significant at conventional levels. Estimated rental revenue from leasing the retail space is also included as a separate line item.

### Estimated Depreciation

The single largest expense item on the LEC November 30, 2004 audited financial statements is depreciation. Depreciation of fixed assets (i.e., the LEC plant and equipment, excluding land) constituted approximately 41 percent of total expenses. LEC uses straight-line depreciation over the useful lives of its assets, principally 40 years for fixed assets, and 20 years for equipment. The financial analysis assumes a 40-year useful life of the Phase 2 fixed assets additions, and that 100 percent of the cost of the expansion is in fixed assets, as a simplifying assumption. Depreciation expense in the estimated statement of revenues and expenses was calculated by rounding the two previous years depreciation amounts to \$500,000 and adding to it the first year's straight line depreciation of the \$15,000,000 plant expansion.

### Estimated Salaries Expense

The next largest expense item in the LEC historical financial statements is salaries expense, which constituted approximately 26 percent of total expenses. OLS methods were not used to estimate this item. Rather, the LEC management estimated additional labor costs for operating the expanded LEC, and that figure is used in the analysis.

### Estimated Utilities Expense

As utilities expense accounts for approximately 12 percent of total expenses (excluding depreciation) in the November 30, 2004 audited financial statements, it is included as a separate item on the estimated revenues and expenses. However, as virtually none of the



variation of monthly utilities expenses is explained by attendance figures, total utilities was estimated by rounding average monthly utilities expense to the nearest \$1,000, doubling it (as a function of the approximate doubling of the LEC space via Phase 2) and multiplying by 12 months.

### **Estimated Concession Expense**

As a major source of LEC's revenue is derived from the sales of concession items, the cost of the concessions is also a significant expense. Based on the OLS estimates, approximately 43 percent of the variation in monthly concession expense is accounted for by variation in monthly attendance. The OLS estimates, rounded to the nearest \$1,000, are used in the analysis.

### **Estimated Other Expenses**

Monthly expenses other than depreciation, salaries, utilities and concessions were summed and analyzed across the previous 33 months ending with August 31, 2005. Looking across the 33 months, the average monthly total is approximately \$33,000. However, the monthly average has been trending downward during that time period. Not surprisingly, OLS methods revealed no clear relationship between total other expenses and monthly attendance. Accordingly, this expense figure was estimated using the monthly average for the 12 months ended November 30, 2004 of approximately \$26,000 and multiplied that by a factor of 1.75.<sup>6</sup> This resulted in an estimated monthly other expense of approximately \$45,000, or \$540,000 for the year.

### **Estimated Net Assets**

The line items in the estimated net assets follow from (1) the available Audited Statement of Net Assets as of November 30, 2004, and (2) the estimated revenues and expenses shown in Exhibit 1, and two assumptions about the growth in balances. First, amounts have been rounded to the nearest \$1,000. Second, accruals were established such that ending balances in receivables, payables, etc. are approximately double the amounts in the November 30, 2004 audited financial statements in accordance with the approximate increase in overall capacity at LEC. Note also that the cost (\$15,000,000) of LEC Phase 2 fixed asset is assumed to be transferred to the LEC financial statements prior to the end of

the preceding accounting period. Furthermore, note that the liability represented by the bonds that will be issued to finance the expansion is not accounted for on the LEC financial statements. Rather, the bond liability will be accounted for in other funds at the LCAS in accordance with Generally Accepted Accounting Principles.

### **Estimated Cash Flows**

The estimated cash flows are derived from both changes in the estimated net assets compared to the November 30, 2004 audited statement of net assets and the estimated revenues and expenses in this analysis. All amounts are rounded to the nearest \$1,000. As interest revenue was negligible, and the only item that appeared in the Investing Activities section of the November 30, 2004 audited statement of cash flows, that item was assumed to be zero in this analysis. Thus, no estimated cash flows for investing activities are shown in the analysis.

## **Assumptions**

### **Inflation**

As inflation has been relatively low during the previous several years, and economic forecasts predict stable and low inflation rates during the coming years, no adjustments for inflation were integrated into this analysis.

### **Intervening Years**

Note that although unaudited monthly revenues and costs for the 33 months ended August 31, 2005 serve as a basis for the estimation figures in this analysis, there will be an intervening time period between the commencement of construction of Phase 2 of LEC, and its actual operation. The figures have not been adjusted for the potential growth or decline in revenues and expenses during that time period. That is, the figures are presented as if Phase 2 is completed and ready for activity September 1, 2005 and the business activities anticipated occur between September 1, 2005 and August 31, 2006, despite the fact that the facility is not likely to be completed and ready for operation until December 1, 2006 or beyond. This is a simplifying assumption. Further, the figures in the estimated financial statements for the first year of operations are

<sup>6</sup>1.75 rather than 2 is used as a multiplier based on the assumption that some economies of scale may be experienced such that although space is doubled by Phase 2 construction, these costs are not expected to double.

denoted FYE Ph2, which refers to the first fiscal year end subsequent to the completion of Phase 2. Finally, merely for comparative purposes, excerpts from the LEC November 30, 2004 audited financial statements have been included in this analysis. The author takes no responsibility for the accuracy of those figures. The complete audited financial statements may be obtained elsewhere and the comparative figures here should not in any way be interpreted as reliable. Accordingly, in the exhibits, those comparative figures are not labeled as audited, but merely as “2004.”

### Analysis Summary

As shown in Exhibit 1, total LEC revenues subsequent to the completion of Phase 2 are estimated to be approximately \$2.316 million. Exhibit 1 also shows total expenses estimated to be approximately \$2.275 million, resulting in an estimated net operating income of approximately \$0.041 million. Thus, under this analysis, securing the additional 12 events proposed in Goss (2005) and the additional lease revenues proposed by Great Plains (2005) appear to raise the operating prospects to around break even.

Exhibit 2 shows estimated net assets given the transfer of the cost of the Phase 2 LEC expansion during the previous year, along with the effects of the estimated revenue and expense transactions from Exhibit 1. Cash is estimated to be approximately \$0.688 million, receivables are estimated to be approximately \$0.160 million, total liabilities are estimated to be approximately \$0.551 million, and total net assets are estimated to be nearly \$26 million. Again, notice that the bonds issued to finance the Phase 2 expansion are not accounted for within the financial statements of the LEC, but they are accounted for in other components to the overall financial statements of the LCAS.

Exhibit 3 shows that estimated cash received from customers, including rental deposits and deferred revenue, to be approximately \$2.3 million, and estimated total cash provided by operating activities to be approximately \$0.946 million. Further, Exhibit 3 reconciles the estimated operating income of approximately \$0.041 million to estimated cash provided by operating activities

of approximately \$0.946 million with the majority of the reconciliation accounted for by estimated depreciation of nearly \$0.875 million.

### Final Comments

This analysis, with all of the assumptions, limitations, and cautions outlined previously, suggests that the LEC in its first year of operating subsequent to the completion of Phase 2 will experience an operating income just above break even at approximately \$0.041 million. Thus, it appears that operating the LEC with Phase 2 alleviates to some degree the operating losses experienced in previous years. At a minimum, previous years' losses are not significantly exaggerated in this analysis. Recall that the operating losses from the November 30, 2003 and November 30, 2004 audited financial statements are approximately \$448,000 and \$317,000, respectively.

As indicated previously, under generally accepted accounting principles that govern the accounting for governmental entities such as the LCAS, including quasi-business entities such as the LEC, bonds issued to finance the expansion of the quasi-business entity, and the associated interest costs, are not accounted for on the financial statements of the quasi-business entity. A typical private business entity, however, would account for the liability assumed, and the attendant interest costs, to finance expansion. For comparative purposes, the following is provided: If the bonds to be issued to finance the LEC expansion were accounted for within the LEC financial statements, estimated liabilities would be approximately \$11 million. Further, estimated interest expense (based on an anticipated annual interest rate of 6 percent) would be \$0.9 million.



**Exhibit 1**

Lancaster County Agricultural Society  
Lincoln, NE

Estimated Statement of Revenues and Expenses—Proprietary Funds (Event Center Phase 1 and 2 Combined)

As of Last Day of First Full Year Ended subsequent to the completion of LEC Phase 2 (with comparative amounts from Year Ended November 30, 2004, rounded).

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| Prospective Operating Revenues:         | Estimated<br>FYE Ph2 | 2004                |
|---|----------------------|---------------------|
| Rental Revenues—Event Center            | \$990,000            | \$540,000           |
| Concessions Revenues                    | 610,000              | 0                   |
| Other Revenues                          | 470,000              | 267,000             |
| Rental Revenues—Retail Space            | <u>\$246,000</u>     | <u>\$162,000</u>    |
| Total Revenues                          | <u>\$2,316,000</u>   | <u>\$969,000</u>    |
| Operating Expenses:                     |                      |                     |
| Depreciation                            | \$875,000            | \$526,000           |
| Salaries                                | 500,000              | 332,000             |
| Telephone and Utilities                 | 190,000              | 93,000              |
| Concession                              | 170,000              | 81,000              |
| Other Expenses                          | <u>\$540,000</u>     | <u>\$254,000</u>    |
| Total Expenses                          | <u>\$2,275,000</u>   | \$1,286,000         |
| Operating Income (Loss)                 | <u>\$41,000</u>      | <u>(\$317,000)</u>  |
| Non-operating Revenues (expenses):      |                      |                     |
| Interest Expense                        | <u>(\$14,000)</u>    | <u>(\$14,000)</u>   |
| Total non-operating revenues (expenses) | <u>(\$14,000)</u>    | <u>(\$14,000)</u>   |
| Income (Loss) Before Transfers          | <u>\$27,000</u>      | <u>(\$331,000)*</u> |

\*The 2004 audited financial statements report both transfers from and to other funds within LCAS. Those transfers have been omitted here to simplify the presentation of the 2004 amounts and the analysis assumes that no such transfers occur in the year under analysis.

**Exhibit 2**

Lancaster County Agricultural Society  
Lincoln, NE

Estimated Statement of Net Assets—Proprietary Funds (Event Center Phase 1  
and Phase 2 Combined)

As of Last Day of First Full Year Ended after completion of LEC Phase 2 (with  
comparative amounts from Year Ended November 30, 2004, rounded).

|  | Estimated<br>FYE Ph2 | 2004                |
|--|----------------------|---------------------|
| <b>Assets:</b>   |                      |                     |
| <b>Current Assets:</b>                                   |                      |                     |
| Cash and Cash Equivalents                                | \$688,000            | \$72,000            |
| Accounts Receivable                                      | 160,000              | 85,000              |
| Inventory  | 26,000               | 13,000              |
| Due from other funds                                     | \$0                  | \$56,000            |
| Total Current Assets                                     | <u>\$874,000</u>     | <u>\$226,000</u>    |
| <b>Non-current Assets:</b>                               |                      |                     |
| Capital Assets   |                      |                     |
| Land   | \$1,226,000          | \$1,226,000         |
| Other capital assets, net of<br>accumulated depreciation | <u>\$24,357,000</u>  | <u>\$10,231,000</u> |
| Total Assets   | <u>\$26,457,000</u>  | <u>\$11,682,000</u> |
| <b>Liabilities:</b>                                      |                      |                     |
| <b>Current Liabilities:</b>                              |                      |                     |
| Accounts Payable   | \$40,000             | \$21,000            |
| Interest Payable   | 14,000               | 0                   |
| Utilities Payable  | 20,000               | 0                   |
| Payroll Taxes Payable                                    | 5,000                | 2,000               |
| Accrued Wages  | 25,000               | 11,000              |
| Rental Deposits  | 52,000               | 26,000              |
| Deferred Revenue   | 200,000              | 104,000             |
| Notes Payable—Current Portion                            | <u>\$35,000</u>      | <u>\$34,000</u>     |
| Total Current Liabilities                                | <u>\$391,000</u>     | <u>\$198,000</u>    |
| <b>Non-current Liabilities:</b>                          |                      |                     |
| Notes Payable  | <u>\$160,000</u>     | <u>\$195,000</u>    |
| <b>Total Liabilities</b>                                 | <u>\$551,000</u>     | <u>\$393,000</u>    |
| <b>Net Assets:</b>                                       |                      |                     |
| Invested in Capital assets, net of<br>related debt       | \$25,906,000         | \$11,228,000        |
| Unrestricted   | <u>\$60,000</u>      | <u>\$60,000</u>     |

**Exhibit 3**

Lancaster County Agricultural Society  
Lincoln, NE

Estimated Statement of Cash Flows—Proprietary Funds (Event Center Phase 1 and Phase 2 Combined) For First Full Year Ended after completion of LEC Phase 2 (with comparative amounts from Year Ended November 30, 2004, rounded).

|   | Estimated<br>FYE Ph2 | 2004               |
|---|----------------------|--------------------|
| Cash Flows from Operating Activities:   |                      |                    |
| Cash received from customers  | \$2,313,000          | \$927,000          |
| Cash payments to suppliers for goods and services                                   | (874,000)            | (401,000)          |
| Cash payments to employees for services   | <u>(\$493,000)</u>   | <u>(\$371,000)</u> |
| Total Cash Provided by Operating Activities   | <u>\$946,000</u>     | <u>\$154,000</u>   |
| Cash Flows from Noncapital Financing Activities:                                    |                      |                    |
| Transfers from other funds  | \$0                  | \$127,000          |
| (Increase) decrease in due from other funds   | <u>\$0</u>           | <u>(\$41,000)</u>  |
| Net cash provided by Noncapital Financing Activities                                | <u>\$0</u>           | <u>\$85,000</u>    |
| Cash Flows from Capital and related Financing Activities:                           |                      |                    |
| Acquisition of Property and Equipment   | \$0                  | (\$170,000)        |
| Issuance of Capital Leases  | \$0                  | 15,000             |
| Interest paid on bonds, notes and leases  |                      | (14,000)           |
| Principal paid on bonds, notes and leases   | <u>(\$34,000)</u>    | <u>(\$33,000)</u>  |
| Net Cash Used in Capital and<br>Related Financing Activities                        | <u>(\$34,000)</u>    | <u>(\$202,000)</u> |
| Net increase in Cash and Cash Equivalents   | <u>\$912,000</u>     | <u>\$37,000</u>    |
| Cash and Cash Equivalents at Beginning of Year                                      | <u>\$127,000</u>     | \$35,000           |
| Cash and Cash Equivalents at End of Year  | <u>\$1,040,000</u>   | <u>\$72,000</u>    |
| Reconciliation of Operating Income to<br>Net Cash Provided by Operating Activities: |                      |                    |
| Operating Income  | \$41,000             | (\$317,000)        |
| Depreciation  | 875,000              | 526,000            |
| (Increase) decrease in Accounts Receivable  | (130,000)            | (30,000)           |
| (Increase) decrease in Inventory  | (13,000)             | 2,000              |
| Increase (Decrease) in Accounts Payable   | 19,000               | (11,000)           |
| Increase (Decrease) in Utilities Payable  | 20,000               | 0                  |
| Increase (Decrease) in Wages Payable  | 5,000                | (2,000)            |
| Increase (Decrease) in Payroll Taxes Payable  | 3,000                | 0                  |
| Increase (Decrease) in Rental Deposits  | 26,000               | (2,000)            |
| Increase (Decrease) in Deferred Revenue   | <u>\$96,000</u>      | <u>(\$12,000)</u>  |

Mark H. Taylor, Ph.D.  
John P. Begley Endowed Chair in Accounting  
Biographical Information

Professor Mark H. Taylor joined the faculty of Creighton University's College of Business in the Fall of 2002 as the John P. Begley Endowed Chair in Accounting. He received a doctoral in Accounting from the University of Arizona Eller School of Management and bachelors and Master's degrees in Accounting from Brigham Young University's Marriott School of Management. He has previously held appointments at the University of Nebraska, the University of South Carolina's Moore School of Business, and Brigham Young University's Marriott School of Management.

Professor Taylor has published in a wide variety of professional journals including, Contemporary Accounting Research, Auditing: A Journal of Practice and Theory, Accounting Horizons, Research in Accounting in Emerging Economies, The International Journal of Accounting, The Pacific Accounting Review, Research in Accounting Regulation, The Journal of Accounting and Business Research, and The Journal of Accounting and Finance Research. He has served as the editor of the American Accounting Association's The Auditor's Report, and serves on the editorial board of The International Journal of Accounting. He is also a reviewer for The Journal of Forensic Accounting, and Auditing: A Journal of Practice and Theory. In 1998 he received the Vernon K. Zimmerman Outstanding Paper Award jointly from the Center for International Education and Research in Accounting at the University of Illinois, and the International Association for Accounting Education and Research at DePaul University. He conducts research in auditing and forensic accounting.

Professor Taylor's teaching focus is in auditing and he is serving as an Academic Fellow at the United States Securities Exchange Commission. He holds a license to practice public accounting from the State of Utah and provides a wide variety of consulting services to companies.